

Office of the State Auditor
Division of State Audit

North Dakota Dry Bean Council
Frazee, Minnesota

Special Purpose Audit Report for the
Two-Year Period Ended June 30, 2008
Client Code 60600

Robert R. Peterson
State Auditor



September 29, 2008

Honorable John Hoeven, Governor
Members of the Legislative Assembly
Members of the North Dakota Dry Bean Council
Tim Courneya, Administrator, North Dakota Dry Bean Council

Transmitted herewith is the special-purpose financial statement audit of the North Dakota Dry Bean Council for the two-year period ended June 30, 2008. The Office of the State Auditor has prepared this audit report in compliance with North Dakota Century Code section 4-24-10.

The special-purpose financial statement has been prepared as required primarily to provide information to the Senate and House agriculture committees. If committee members have any questions they are encouraged to call John Grettum, CPA, Audit Manager, at (701) 239-7289.

The Office of the State Auditor would like to thank the North Dakota Dry Bean Council for the cooperation we received during our audit.

Sincerely,

Robert R. Peterson
State Auditor

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Independent Auditor's Report

Honorable John Hoeven, Governor
Members of the Legislative Assembly
Members of the North Dakota Dry Bean Council
Tim Courneya, Administrator, North Dakota Dry Bean Council

We have audited the special-purpose statements of revenues and expenditures of the North Dakota Dry Bean Council for the two-year periods ended June 30, 2008 and June 30, 2006. These special-purpose financial statements are the responsibility of the management of the North Dakota Dry Bean Council. Our responsibility is to express an opinion on these special-purpose financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the special-purpose financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, these special-purpose financial statements are intended to present the revenues and expenditures of only that portion of the governmental activities of the state of North Dakota that is attributable to the transactions of the North Dakota Dry Bean Council. They do not purport to, and do not present fairly the financial position of the state of North Dakota, in conformity with accounting principles generally accepted in the United States of America.

The accompanying special-purpose financial statements are prepared to provide state decision makers, including the Senate and House Agriculture Committees, with a comprehensive overview of the North Dakota Dry Bean Council's operations in accordance with NDCC section 4-24-10. The revenues and expenditures are reported as discussed in the first notes to the special-purpose financial statements. These special-purpose financial statements are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the special-purpose financial statements referred to above presents fairly, in all material respects, the revenues and expenditures of the North Dakota Dry Bean Council for the two-year periods ended June 30, 2008 and June 30, 2006, in conformity with the basis of accounting described in Note 1 to the special-purpose financial statements.

Our audits were made for the purpose of forming an opinion on the special-purpose financial statements taken as a whole. The Detailed Comparative Schedule of Revenues and Expenditures subsequent to the notes is presented for purposes of additional analysis and is not a required part of the special-purpose financial statements of the North Dakota Dry Bean Council. The Detailed Comparative Schedule of Revenues and Expenditures has been subjected to the auditing procedures applied in the audits of the special-purpose financial statements and in our opinion, is fairly stated in all material respects in relation to the special-purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2008 on our consideration of the North Dakota Dry Bean Council's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

This report is intended solely for the information of the Governor, Legislative Audit and Fiscal Review Committee, the Senate and House agriculture committees, and management of the North Dakota Dry Bean Council and is not intended to be and should not be used by anyone other than these specified parties.

Robert R. Peterson
State Auditor

September 29, 2008

Comparative Statement of Revenues and Expenditures
(Budgetary Basis)

	Fiscal Years	
	2008 & 2007	2006 & 2005
<u>REVENUES:</u>		
Bean Assessments (net of refunds of \$202,515 and \$173,541)	\$ 1,816,290	\$ 1,470,680
Interest on Investments	63,464	19,054
Total Revenues	<u>\$ 1,879,754</u>	<u>\$ 1,489,734</u>
<u>EXPENDITURES:</u>		
Operating Expenses	\$ 15,241	\$ 11,745
Management and Consulting Services	1,660,759	1,095,812
Total Expenditures	<u>\$ 1,676,000</u>	<u>\$ 1,107,557</u>
Revenue Over Expenditures	<u>\$ 203,754</u>	<u>\$ 382,177</u>

See Notes to the Special-Purpose Financial Statement.

Notes to the Special-Purpose Financial Statements

Note 1 - Summary of Significant Accounting Policies

The responsibility for these special-purpose financial statements, the internal control structure, and compliance with laws and regulations belongs to the management of the North Dakota Dry Bean Council. A summary of the significant accounting policies follows:

A. Reporting Entity

For financial reporting purposes, the North Dakota Dry Bean Council includes all funds, programs, and activities over which it is financially accountable. The North Dakota Dry Bean Council does not have any component units as defined by the Government Accounting Standards Board. The North Dakota Dry Bean Council is part of the state of North Dakota as a reporting entity.

The North Dakota Dry Bean Council was created by the 1977 Legislature through passage of the "Edible Bean Industry Promotion Act" pursuant to NDCC chapter 4-10.3. It being the intended purpose that the production, development, marketing, and promotion of dry beans in North Dakota is important to the general welfare of the people of North Dakota. The accomplishment of which required the establishment of the North Dakota Dry Bean Council for that purpose and with the objectives of contributing to the stabilization and improvement of the agriculture economy of the state.

The North Dakota Dry Bean Council is composed of one participating grower elected from each of the five districts established in chapter 4-10.3 of the NDCC. An assessment of 10 cents per hundredweight is imposed on all dry beans grown in the state and sold to a designated handler. All moneys levied and collected by the North Dakota Dry Bean Council are to be deposited in an account designated "Dry Bean Fund" at the State Treasurer and used for carrying out Council objectives.

The Northharvest Bean Growers Association performs the administrative duties and the record-keeping requirements of the North Dakota Dry Bean Council under contract. This related party is further explained in Note 2 to the special-purpose financial statement. The special-purpose financial statement includes only activities of the North Dakota Dry Bean Council, which is one department that has one division. The North Dakota Dry Bean Council is responsible for and is funded under a continuing appropriation.

B. Reporting Structure

The special-purpose financial statements include all activities of the reporting entity as defined above. These activities are funded from fund 241, the Dry Bean Fund. The comparative statement of revenues and expenditures is a combined statement to give the users an overview of the agency's activity.

C. Basis of Accounting

Revenues and expenditures on the statements of revenues and expenditures are principally reported on the modified accrual basis of accounting which is generally accepted accounting principles (GAAP) for governmental fund types. Because of the unique nature of North Dakota's accounting system and its appropriation laws, there are at times differences between the way expenditures are appropriated and GAAP. These differences are discussed below.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount can be determined, available means due and collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are considered available if they are collected within a year after fiscal year end. Expenditures are recorded when goods or services are received. Exceptions include: principle and interest expenditures, which are recorded when due; compensated absences, which are recorded when paid; and, claims and judgments.

As stated above, there can be differences between revenues and expenditures reported on the state's accounting system and budget basis, and those reported by the Office of Management and Budget in the state's CAFR in accordance with GAAP. Basically there are two types of differences: accounting and statutory.

Accounting differences can include:

- A. Loan receipts and loan disbursements are accounted for as revenues and expenditures on the state's accounting system (and at times are budgeted as expenditures).
- B. Revenue reported on the statement of revenues and expenditures can differ from GAAP revenues because certain receivables are accrued for GAAP purposes while they were not recorded as revenue on the state's accounting system when they are received after the apply-back period.
- C. Certain transfers are sometimes recorded as revenues and expenditures on the state's accounting system.
- D. Expenditures recorded on the state's accounting system do not report expenditures relating to capital lease and other financing arrangements.

Statutory differences can occur because of North Dakota Century Code section 54-44.1-11. This section requires the Office of Management and Budget to cancel most unexpended appropriations 30 days after the end of each biennial period. Certain GAAP expenditures are not recorded as budgetary expenditures because the agency does not have the ability to pay the expenditures within 30 days after the end of the biennium. These are relatively rare occurrences, and when significant, will be clearly disclosed.

D. Other GAAP Reporting Differences

GAAP financial statements would include a balance sheet by fund type and account group. Revenues, expenditures, and expenses would also be reported by fund type. In addition, a statement of cash flows would have been prepared for proprietary fund type activities. GAAP financial statements would also provide more complete note disclosures. This type of information is available in the state's comprehensive annual financial report and the Office of Management and Budget's combining statements by department.

For this report, revenues and expenditures are reported on a departmental basis to give an overview of the North Dakota Dry Bean Council's operations. All revenues and expenditures are included regardless of the nature of the activities.

Note 2 – Related Parties

The Northharvest Bean Growers Association (Association) is a related party of the North Dakota Dry Bean Council (Council). The Council contracts with the Association for management and consulting services. For fiscal years 2008, 2007, 2006, and 2005 the Council paid the Association \$1,006,751, \$654,008, \$560,000, and \$533,869, respectively, for services. The Association pays salaries and benefits for the Administrator and Secretary of the Council and the Association owns all fixed assets.

Note 3 - Other Significant Items

The North Dakota Dry Bean Council has cash and investment reserves of \$969,511 and \$801,958 at June 30, 2008 and June 30, 2006, respectively. Based on the average monthly expenditures for fiscal years 2008 and 2006, this amount represents approximately 12 and 17 months of expenditures, respectively.

Special Comments Requested by the Legislative Audit and Fiscal Review Committee

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by auditors performing audits of state agencies. These items and our responses are as follows:

1. *What type of opinion was issued on the financial statements?*

An unqualified (clean) opinion was given on the special-purpose financial statement.

2. *Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

3. *Was internal control adequate and functioning effectively?*

No. There is a lack of segregation of duties and the internal control system is very limited. No recommendation will be made since it is not feasible for the North Dakota Dry Bean Council to implement it.

4. *Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

There were no findings or recommendations included in the prior audit report.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes. A management letter containing one informal recommendation relating to the creation of a code of ethics was issued and is included on page 12 of this report, along with management's response.

LAFRC Audit Communications

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

None.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

None.

3. *Identify any significant audit adjustments.*

None.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance is the most high-risk information technology systems critical to the operations of the state. The management letter exception is not directly related to the operations of an information technology system.

***Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards***

Honorable John Hoeven, Governor
Members of the Legislative Assembly
Members of the North Dakota Dry Bean Council
Tim Courneya, Administrator, North Dakota Dry Bean Council

We have audited the special-purpose financial statement of the governmental activities of the North Dakota Dry Bean Council as of and for the two-years ended June 30, 2008 and have issued our report thereon dated September 29, 2008. Our report was modified to indicate the statement of revenue and expenses was prepared in accordance with NDCC section 4-24-10 and are not intended to be a presentation in conformity with generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the North Dakota Dry Bean Council's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the special-purpose financial statement, but not for the purpose of expressing an opinion on the effectiveness of the North Dakota Dry Bean Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the North Dakota Dry Bean Council's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally

accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's special-purpose financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control. The deficiency noted above refers to lack segregation of duties and is considered to be a significant deficiency in internal control over financial reporting. However, no finding will be reported, as it is not feasible to implement due to the size of the agency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the special-purpose financial statement will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Dry Bean Council's special-purpose financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of special-purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted a certain matter that we reported to management of the North Dakota Dry Bean Council in a letter dated September 29, 2008.

This report is intended solely for the information and use of the North Dakota Dry Bean Council, Legislative Audit and Fiscal Review Committee, and members of the North Dakota Legislative Assembly, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Robert R. Peterson
State Auditor

September 29, 2008

Detailed Comparative Schedule of Revenues and Expenditures

	Fiscal Years	
	2008 & 2007	2006 & 2005
<u>REVENUES:</u>		
Bean Assessments (net of refunds of \$202,515 and \$173,541)	\$ 1,816,290	\$ 1,470,680
Interest on Investments	63,464	19,054
Total Revenues	<u>\$ 1,879,754</u>	<u>\$ 1,489,734</u>
 <u>EXPENDITURES:</u>		
Travel	\$ 11,549	\$ 6,770
Stipends		3,113
Audit	1,955	1,862
Management and Consulting Service	1,660,759	1,095,812
Risk Management	1,737	
Total Expenditures	<u>\$ 1,676,000</u>	<u>\$ 1,107,557</u>
 Revenue Over Expenditures	<u>\$ 203,754</u>	<u>\$ 382,177</u>

Management Letter (Informal Recommendations)

September 29, 2008

Tim Courneya, Administrator
North Dakota Dry Bean Council
Frazee, North Dakota

Dear Mr. Courneya:

We have performed an audit of the North Dakota Dry Bean Council for the two-year period ended June 30, 2008, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Dry Bean Council's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted a certain condition we did not consider reportable within the context of your audit report. This condition relates to areas of general business practice or control issues that have no significant bearing on the administration of governmental funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following presents our informal recommendation:

INTERNAL CONTROLS

Informal Recommendation 08-1:

The North Dakota Dry Bean Council should adopt a code of ethics.

North Dakota Dry Bean Council's Response:

The North Dakota Dry Bean Council will adopt a code of ethics.

I encourage you to call me at 701-239-7289 if you have any questions.

Sincerely,

John Grettum, CPA
Audit Manager